



**THULAMELA**

**LOCAL MUNICIPALITY**

**FIXED ASSET  
MANAGEMENT POLICY  
(2017/2018)**

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## PART 1: OBJECTIVES:

This policy is aimed at assisting management and employees of the Thulamela Local Municipality to implement and maintain consistent, effective and efficient asset management principles.

The objective of this policy is:

- To safeguard the fixed assets of the municipality and to ensure the effective use of existing resources
- To emphasise a culture of accountability towards the municipality's fixed assets
- To ensure that effective controls are communicated to management and staff through clear and comprehensive written documentation.
- To provide a formal set of financial procedures that can be implemented to ensure that the municipality's financial asset policies are in compliance with the Municipal Finance Management Act 2003, Act 56 of 2003, herein referred to as the MFMA.

## PART 2: DEFINITIONS:

### 1. Accounting Officer

means the Municipal Manager appointed in terms of Section 82 of the Local Government: Municipal Structures Act, 1998 (Act no. 117 of 1998) and being the head of administration and accounting officer in terms of section 55 of the Local Government: Municipal Systems Act 2000 (Act no. 32 of 2000).

### 3. Property, plant and equipment"

are tangible assets that: Are held by a municipality for use in the production of goods or supply of goods or services, for rental to others, for administrative purpose, and are expected to be used during more than one period.

#### 4. Lease

A lease is an agreement whereby the lesser conveys to the lessee in return for payment or series of payments the right to use an asset for an agreed period of time.

A finance lease is a lease that transfers substantially all the risks and rewards incident of ownership of an asset.

An asset held under a finance lease, shall be recognised as a fixed asset, as the municipality has control over such an asset and risk and rewards associated with the ownership of the assets has been transferred to the municipality even though it will not own the asset.

#### 5. Fair value

Fair value is the amount for which an asset can be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

#### 6. Residual value

Residual value is the net amount that the enterprises expect to obtain for an asset at the end of its useful life after deducting the expected cost of disposal.

#### 7. Impairment Loss

An impairment loss is the amount by which the carrying value of an asset exceeds the recoverable amount.

#### 8. Carrying value

Carrying value is the amount at which the asset is recognized in the balance sheet after deducting any accumulated depreciation and accumulated impairment losses thereon.

#### 9. Recoverable amount

is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal.

is the higher of a cash-generating asset's or units net selling price less cost to sell and its value in use.

#### 10. Recognition / Capitalization

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity, and
- the cost or fair value of the item can be measured reliably.

#### 11. Cost

is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

#### 12. Cost of acquisition

is all the costs incurred in bring an item of plant, property or equipment to the required condition and location for its intended use.

#### 13. Component

is a part of an asset with a significantly different useful life and significant cost in relation to the rest of the main asset.

Component accounting requires that each such part should be separately accounted for and is treated separately for depreciation, recognition and derecognition purposes. It is also referred to as separately depreciable parts

#### 14. Depreciation

Depreciation is the decline during the accounting period, in the value of fixed assets as result of physical deterioration, normal obsolescence or normal accidental damage.

During the useful life of the asset the asset will be depreciated from it's actual cost price to its residual value. This value is usually nil.

#### 15. Depreciable amount

The depreciable amount of an asset is determined after deducting the residual value of the fixed asset.

#### 16. Accumulated depreciation

Accumulated depreciation refers to the total depreciation allocations to a certain point with respect to assets still in use.

#### 17. Depreciation Method

Although various depreciation methods can be used, the municipality uses the straight-line method to ensure a constant charge over the useful life of an asset.

#### 18. Useful life

The useful life of an asset is defined in terms of the asset's expected utility to the municipality and this is not necessary as long as the economic life. The estimation of the useful life of an asset is a matter of judgment based on experience with similar assets and organisations. The following factors should be considered when assessing an asset's useful life:

- Expected use
- expected physical wear and tear
- Technical obsolescence
- Legal or other limits on the use

#### 19. Construction Contracts

A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or inter dependent in terms of their design, technology and function or their ultimate purpose or use.

#### 20. Intangible assets

An intangible asset is an identifiable non – monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

#### 21. Asset Manager

is any official who has been delegated responsibility and accountability for the control, usage, physical and financial management of the municipality's assets in accordance with the council's standards, policies, procedures and guidelines.

#### 22. Infrastructure assets

means assets that usually display some or all of the following characteristics:

- they are part of a system or network;
- they are specialised in nature and do not have alternative uses;
- they are immovable; and they may be subject to constraints on disposal

Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks

#### 23. Community assets-

are defined as any asset that contributes to the community's well-being.

- Examples are parks, libraries and fire stations.



#### 24. Community Facilities:

Discrete assets that provide a service directly to the community (such as parks, sports facilities, cemeteries, landfill sites etc.

#### 25. Heritage assets-

are defined as culturally significant resources. Examples are works of art, historical buildings and statues.

#### 26. Investment properties-

are defined as properties that are acquired for economic and capital gains.

- Examples are leased office buildings and underdeveloped land acquired for the purpose of capital appreciation..

### PART 3: ROLE OF MUNICIPAL MANAGER

As accounting officer of the municipality, the municipal manager shall be the principal custodian of all the municipality's fixed assets, and shall be responsible for ensuring that the fixed asset management policy is scrupulously applied and adhered to.

### PART 4: ROLE OF CHIEF FINANCIAL OFFICER

The chief financial officer shall be the custodian of the fixed asset register of the municipality, and shall ensure that a complete, accurate and up-to-date computerised fixed asset register is maintained.

No amendments, deletions or additions to the fixed asset register shall be made other than by the Chief Financial Officer or by an official acting under the written instruction of the Chief Financial Officer or by asset management unit.

#### PART 5: ROLE OF HEAD OF DEPARTMENT (SENIOR MANAGERS)

- Shall ensure that employees in their departments adhere to the approved Asset Management Policy.
- Shall ensure that an assets coordinator with delegated authority has been nominated to implement and maintain physical control over assets in the department.
- The Asset Management Section must be notified of who the responsible person is. Although authority has been delegated the responsibility to ensure adequate physical control over each asset remains with the senior manager.
- Shall ensure that employees who contravenes the operational procedure or who use the council assets negligently and for their personal gain are disciplined accordingly.
- Every head of department shall report to the chief financial officer each financial year on any fixed assets which such head of department wishes to have written off, stating in full the reason for such recommendation.

#### PART 6: ROLE OF MANAGER ASSETS

- Shall ensure that complete asset registers kept, verified and balanced regularly.
- Shall ensure that all movable assets are properly bar coded and accounted for.
- Shall conduct an annual audit inventory by scanning selected movable assets and compare this inventory with the Departments asset sign offs.
- Shall ensure that the Fixed Asset Register is balanced annually with the general ledger and the financial statements.
- Shall ensure that the relevant information relating to the calculation of depreciation is obtained from the departments and provided to the finance department
- Shall ensure that asset acquisitions are allocated to the correct asset code.

- Shall ensure that, before accepting an obsolete or damaged asset or asset inventory item, a completed asset disposal form, counter signed by the Asset management Section, is presented.
- Shall ensure that a verifiable record is kept of all obsolete, damaged and unused asset or asset inventory items received from the departments.
- Shall compile and circulate a list of unused movable assets to enable other departments to obtain items that are of use to them.
- Shall ensure that the SCM unit is notified of any auctioning or disposing of written-off asset or asset inventory item

#### PART 7: ROLE OF ALL COUNCIL EMPLOYEES

- Shall ensure that assets assigned to them are utilized effectively, efficiently, economically and transparently
- Shall ensure that the assets of the council are not used for private gain
- Shall notify the assets coordinators and assets management section of all obsolete, damaged and stolen assets, without delay.
- Shall ensure that on termination of service they returned the assets to their supervisors and complete a termination assets clearance form.
- Shall notify the asset coordinators and assets management unit of the movement and transfer of assets assigned to them by completing an assets transfer form.
- Shall ensure that they comply with the operational procedures.

#### PART 8: FORMAT OF FIXED ASSET REGISTER

The fixed asset register shall be maintained in the format determined by the chief financial officer, which format shall comply with the requirements of generally recognised accounting practice (GRAP) and any other accounting requirements which may be prescribed.

The fixed asset register shall reflect the following information:

- a brief but meaningful description of each asset
- the date on which the asset was acquired or brought into use
- the location of the asset, as far as practical
- where applicable, the identification number, as determined in compliance with part 15 below
- the original cost, or the revalued amount determined , or the fair value if no costs are available
- the revalued value of such fixed assets
- accumulated depreciation to date
- the depreciation charge for the current financial year
- the carrying value of the asset
- rate of depreciation
- impairment losses incurred during the financial year (and the reversal of such losses, where applicable)
- the source of financing
- the date on which the asset is disposed of
- the disposal price
- the date on which the asset is retired from use, if not disposed of.

A fixed asset shall be capitalised, that is, recorded in the fixed assets register, as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, where after it shall be appropriately capitalised as a fixed asset.

A fixed asset shall remain in the fixed assets register for as long as it is in physical existence. The fact that a fixed asset has been fully depreciated shall not in itself be a reason for writing-off such an asset. Assessment of useful lives should then be applied for assets through a category in which they fall

## PART 9: CLASSIFICATION OF FIXED ASSETS

When accounting for assets, the municipality should follow the various standards of GRAP relating to the assets. An item is recognised in the statement of financial position as an asset if it satisfies the definition and the criteria for recognition of assets. The first step in the recognition process is to establish whether the item meets the definition of an asset. Secondly, the nature of the asset should be determined, and thereafter the recognition criterion is applied. Assets are classified into the following categories for financial reporting purposes:

### 9.1 PROPERTY, PLANT AND EQUIPMENT (GRAP 17)

- land and building (land and building not held as investment assets)
- infrastructure assets (immoveable assets that are used to provide basic services) unbundling of assets should be done in all infrastructure assets
- community assets (resources contributing to the general well-being of the community)
- heritage assets (culturally significant resources)
- housing assets (rental stock or housing stock not held for capital gain)
- other assets (ordinary operational resources)

### 9.2 INVESTMENT PROPERTY (GRAP 16)

- investment assets (resources held for capital or operational gain)

The chief financial officer shall adhere to the classifications indicated in the annexure on fixed asset lives (see part 37 below), and in the case of a fixed asset not appearing in the annexure shall use the classification applicable to the asset most closely comparable to the asset in question.

## PART 10: INVESTMENT PROPERTY (GRAP 16)

Investment assets shall be accounted for in terms of IAS 40 and shall not be classified as property, plant and equipment for purposes of preparing the municipality's statement of financial position.

Investment assets shall comprise land or buildings (or parts of buildings) or both held by the municipality, as owner or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both.

Investment assets shall be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.

Investment assets shall not be depreciated, but shall be annually valued on balance sheet date to determine their fair (market) value). Investment assets shall be recorded in the statement of financial position at such fair value. Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned.

An expert valuer shall be engaged by the municipality to undertake such valuations.

If the council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as an ordinary fixed asset until it is ready for its intended use – where after it shall be reclassified as an investment asset.

## PART 11: FIXED ASSETS TREATED AS INVENTORY (GRAP 12)

Any land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of

developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory, and not included in either property, plant and equipment or investment property in the municipality's statement of position.

A separate register shall be maintained for such inventories.

#### PART 12: RECOGNITION OF HERITAGE ASSETS IN THE FIXED ASSET REGISTER (GRAP 103)

If no original costs or fair values are available in the case of one or more or all heritage assets, the chief financial officer may, if it is believed that the determination of a fair value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the fixed asset register without an indication of the costs or fair value concerned.

For purposes of compiling the statement of position, the existence of such heritage assets shall be disclosed by means of an appropriate note.

#### PART 13: RECOGNITION OF DONATED ASSETS

Where a fixed asset is donated to the municipality, or a fixed asset is acquired by means of an exchange of assets between the municipality and one or more other parties, the asset concerned shall be recorded in the fixed asset register at its fair value, as determined by the chief financial officer.

#### PART 14: SAFEKEEPING OF ASSETS

Every head of department shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by the department in question.

In exercising this responsibility, every head of department shall adhere to any written directives issued by the chief financial officer to the department in

question, or generally to all departments, in regard to the control of or safekeeping of the municipality's fixed assets.

#### PART 15: IDENTIFICATION OF FIXED ASSETS

The chief financial officer shall ensure that the municipality maintains a fixed asset identification system which shall be operated in conjunction with its computerised fixed asset register.

The identification system shall be determined by the chief financial officer, acting in consultation with the municipal manager and other heads of departments, and shall comply with any legal prescriptions, as well as any recommendations of the Auditor-General as indicated in the municipality's audit report(s), and shall be decided upon within the context of the municipality's budgetary and human resources.

Every head of department shall ensure that the asset identification system approved for the municipality is scrupulously applied in respect of all fixed assets controlled or used by the department in question.

#### PART 16: PROCEDURE IN CASE OF LOSS, THEFT, DESTRUCTION, OR IMPAIRMENT OF FIXED ASSETS

Every head of department shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the department in question is promptly reported in writing to the chief financial officer, to the internal auditor, and – in cases of suspected theft or malicious damage – also to the South African Police Service. The accounting officer will investigate any loss or misplacement of assets as a result of negligence of any official to whom the asset have been allocated per inventory list, and if the official is found guilty he or she will be required to replace the assets in question out of his or her own pocket. All movement of assets should be communicated formally to Assets Management section for control purpose



## PART 17: CAPITALISATION CRITERIA: MATERIAL VALUE

Assets will be capitalized on the basis of the fact that it should meet the definition of assets as outlined on GRAP 17 regardless of the value of assets. Useful life or lifespan of more than one year should also be incorporated.

All capital assets shall be correctly recognised as assets and capitalised at the correct value in its significant components. All assets will be capitalised, except those listed as examples in *Annexure A*, but the application thereof will be determined annually by the municipality.

However, the municipality (Municipal Manager or to whom the right is delegated) can determine with an internal memorandum which assets, as mentioned in *Annexure A*, cannot be classified as capital assets.

A lease register shall be maintained with all the information that is necessary for reporting purposes.

## PART 18: CAPITALISATION CRITERIA: INTANGIBLE ITEMS

No intangible item shall be recognised as a fixed asset, except that the chief financial officer, acting in strict compliance with the criteria set out in IAS 38 (dealing with research and development expenses) may recommend to the council that specific development costs be recognised as fixed assets.

## PART 19: CAPITALISATION CRITERIA: REINSTATEMENT, MAINTENANCE AND OTHER EXPENSES

Only expenses incurred in the enhancement of a fixed asset (in the form of improved or increased services or benefits flowing from the use of such asset) or in the material extension of the useful operating life of a fixed asset shall be capitalised.

Expenses incurred in the maintenance or reinstatement of a fixed asset shall be considered as operating expenses incurred in ensuring that the useful

operating life of the asset concerned is attained, and shall not be capitalised, irrespective of the quantum of the expenses concerned.

Expenses which are reasonably ancillary to the bringing into operation of a fixed asset may be capitalised as part of such fixed asset. Such expenses may include but need not be limited to import duties, forward cover costs, transportation costs, installation, assembly and commissioning costs.

#### PART 20: MAINTENANCE PLANS

Every head of department shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R100 000 (one hundred thousand rand) or more is promptly prepared and submitted to the council of the municipality for approval.

If so directed by the municipal manager, the maintenance plan shall be submitted to the council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned.

The head of department controlling or using the infrastructure asset in question, shall annually report to the council, not later than in July, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance may have on the useful operating life of the asset concerned.

#### PART 21: DEFERRED MAINTENANCE

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset (see part 20 above), the chief financial officer shall disclose the extent of and possible implications of such

deferred maintenance in an appropriate note to the financial statements. Such note shall also indicate any plans which the council of the municipality has approved in order to redress such deferral of the maintenance requirements concerned.

If no such plans have been formulated or are likely to be implemented, the chief financial officer shall re-determine the useful operating life of the fixed asset in question, if necessary in consultation with the head of department controlling or using such asset, and shall recalculate the annual depreciation expenses accordingly.

## PART 22: GENERAL MAINTENANCE OF FIXED ASSETS

Every head of department shall be directly responsible for ensuring that all assets (other than infrastructure assets which are dealt with in part 20 and part 21 above) are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

## PART 23: DEPRECIATION OF FIXED ASSETS

All fixed assets, except land and heritage assets, shall be depreciated – or amortised in the case of intangible assets.

Depreciation may be defined as the monetary quantification of the extent to which a fixed asset is used or consumed in the provision of economic benefits or the delivery of services.

Depreciation shall generally take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed.

However, depreciation shall initially be calculated from the day following the day in which a fixed asset is acquired or – in the case of construction works

and plant and machinery – the day following the day in which the fixed asset is brought into use, until the end of the calendar month concerned. Thereafter, depreciation charges shall be calculated monthly.

Each head of department, acting in consultation with the chief financial officer, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable fixed assets controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.

The procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other fixed assets.

#### PART 24: RATE OF DEPRECIATION

The chief financial officer shall assign a useful operating life to each depreciable asset recorded on the municipality's fixed asset register. In determining such a useful life the chief financial officer shall adhere to the useful lives set out in the annexure to this policy (see part 37 below).

In the case of a fixed asset which is not listed in this annexure, the chief financial officer shall determine a useful operating life, if necessary in consultation with the head of department who shall control or use the fixed asset in question, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.

#### PART 25: METHOD OF DEPRECIATION

Except in those cases specifically identified in part 27 below, the chief financial officer shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in question.

## PART 26: AMENDMENT OF ASSET LIVES AND DIMINUTION IN THE VALUE OF FIXED ASSETS

The CFO can amend useful operating life in terms of GRAP requirements i.e. Assessment of useful life for all categories of assets with assets that are fully depreciated but can still yield future economic benefit or they still have service delivery potential

If the value of a fixed asset has been diminished to such an extent that it has no or a negligible further useful operating life or value such fixed asset shall be fully depreciated in the financial year in which such diminution in value occurs.

Similarly, if a fixed asset has been lost, stolen or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs, and if the fixed asset has physically ceased to exist, it shall be written off the fixed asset register.

In all the foregoing instances, the additional depreciation expenses shall be debited to the department or vote controlling or using the fixed asset in question.

If any of the foregoing events arises in the case of a normally non-depreciable fixed asset, and such fixed asset has been capitalised at a value other than a purely nominal value, such fixed asset shall be partially or fully depreciated, as the case may be, as though it were an ordinary depreciable asset, and the department or vote controlling or using the fixed asset in question shall bear the full depreciation expenses concerned.

## PART 27: ALTERNATIVE METHODS OF DEPRECIATION IN SPECIFIC INSTANCES

## PART 28: CREATION OF NON-DISTRIBUTABLE RESERVES FOR FUTURE DEPRECIATION

## PART 29: CARRYING VALUES OF FIXED ASSETS

All fixed assets shall be carried in the fixed asset register, and appropriately recorded in the annual financial statements, at their original cost or fair value less any accumulated depreciation.

The only exceptions to this rule shall be revalued assets (see part 30 below) and heritage assets in respect of which no value is recorded in the fixed asset register (see part 12 above).

## PART 30: REVALUATIONS OF FIXED ASSETS

All land and buildings recorded in the municipality's fixed asset register shall be revalued with the adoption by the municipality of each new valuation roll (or, if the land and buildings concerned fall within the boundary of another municipality, with the adoption by such municipality of each new valuation roll).

The chief financial officer shall adjust the carrying value of the land and buildings concerned to reflect in each instance the value of the fixed asset as recorded in the valuation roll, provided the chief financial officer is satisfied that such value reflects the fair value of the fixed asset concerned.

The chief financial officer shall also, where applicable, create a revaluation reserve for each such fixed asset equal to the difference between the value as

recorded in the valuation roll and the carrying value of the fixed asset before the adjustment in question.

The fixed asset concerned shall, in the case of buildings, thereafter be depreciated on the basis of its revalued amount, over its remaining useful operating life, and such increased depreciation expenses shall be budgeted for and debited against the appropriate line item in the department or vote controlling or using the fixed asset in question.

The chief financial officer shall ensure that an amount equal to the difference between the new (enhanced) monthly depreciation expense and the depreciation expenses determined in respect of such fixed asset before the revaluation in question is transferred each month from the revaluation reserve to the municipality's appropriation / accumulated surplus account. An adjustment of the aggregate transfer shall be made at the end of each financial year, if necessary (see part 28 above).

If the amount recorded on the valuation roll is less than the carrying value of the fixed asset recorded in the fixed asset register, the chief financial officer shall adjust the carrying value of such asset by increasing the accumulated depreciation of the fixed asset in question by an amount sufficient to adjust the carrying value to the value as recorded in the valuation roll. Such additional depreciation expenses shall form a charge, in the first instance, against the balance in any revaluation reserve previously created for such asset, and to the extent that such balance is insufficient to bear the charge concerned, an immediate additional charge against the department or vote controlling or using the asset in question.

Revalued land and buildings shall be carried in the fixed asset register, and recorded in the annual financial statements, at their revalued amount, less accumulated depreciation (in the case of buildings).

#### PART 31: VERIFICATION OF FIXED ASSETS

The Chief Financial Officer shall at least annually appoint the assets verification team which will be supervised by the Assets Manager, to undertake a comprehensive verification of all fixed assets controlled or used by the municipality, in compliance with the written directive issued by the CFO.

The directives issued by the chief financial officer shall stipulate the date(s) when such verification shall be undertaken and completed and such date(s) shall be as close as possible to the end of each financial year.

The Assets Manager shall promptly and fully report in writing to the chief financial officer in the format determined by the chief financial officer, all relevant results of such fixed asset verification, and the resultant report shall be submitted to the chief financial officer not later than 30 June of the year in question.

## PART 32: ALIENATION OF FIXED ASSETS

In compliance with the principles and prescriptions of the Municipal Finance Management Act, the transfer of ownership of any fixed asset shall be fair, equitable, transparent, competitive and consistent with the municipality's supply chain management policy.

Every head of department shall report in writing to the chief financial officer each financial year on all fixed assets controlled or used by the department concerned which such head of department wishes to alienate. The chief financial officer shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the municipal manager, indicating the process of alienation to be adopted in accordance with Part 36 the policy

The chief financial officer shall ensure that the alienation of any fixed asset with a carrying value equal to or in excess of R50 000 (fifty thousand rand)



takes place in compliance with Section 14 of the Municipal Finance Management Act, 2004 (see part 38 below).

Once the fixed assets are alienated, the chief financial officer shall delete the relevant records from the fixed asset register.

If the proceeds of the alienation are less than the carrying value recorded in the fixed asset register, such difference shall be recognised as a loss in the statement of performance of the department or vote concerned. If the proceeds of the alienation, on the other hand, are more than the carrying value of the fixed asset concerned, the difference shall be recognised as a gain in the statement of performance of the department or vote concerned.

All losses on the alienation of fixed assets shall remain as expenses on the income statement of the department or vote concerned. If, however, both gains and losses arise in any one financial year in respect of the alienation of the fixed assets of any department or vote, only the net gain (if any) on the alienation of such fixed assets shall be appropriated.

Transfer of fixed assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of alienation shall be by private treaty in accordance with the municipality's supply chain management policy.

The chief financial officer shall in July of every year report to the council of the municipality details of all fixed assets disposed of during the immediately preceding financial year.

### PART 33: OTHER WRITE-OFFS OF FIXED ASSETS

A fixed asset other than when disposed of in accordance with part 28 above, and even though fully depreciated, shall be written off by the chief financial

officer only on the recommendation of the head of department controlling or using the asset concerned, and with the approval of the municipal manager.

Every head of department shall report to the chief financial officer each financial year on any fixed assets which such head of department wishes to have written off, stating in full the reason for such recommendation. It responsibilities of every head of department to verify and sign off the list of assets wishes to have written off (Disposal form). The chief financial officer shall consolidate all such reports, and shall promptly submit a recommendation to the council of the municipality on the fixed assets to be written off.

The only reasons for writing off fixed assets, other than the alienation of such fixed assets, shall be the loss, theft, destruction or material impairment of the fixed asset in question.

In every instance where a not fully depreciated fixed asset is written off, the chief financial officer shall immediately debit to such department or vote, as additional depreciation expenses, the full carrying value of the asset concerned (see also part 26).

#### PART 35: INSURANCE OF FIXED ASSETS

The Corporate Services Manager shall ensure that all movable fixed assets are insured at least against fire and theft, and that all municipal buildings are insured at least against fire and allied perils.

#### PART 36: DISPOSAL MANAGEMENT

The criteria for the disposal or letting of assets, including unserviceable, redundant or obsolete assets, subject to sections 14 and 90 of the Act, are as follows: *council / board of directors to insert criteria*

.....

- (1) Assets may be disposed of by –
  - (i) transferring the asset to another organ of state in terms of a provision of the Act enabling the transfer of assets;
  - (ii) transferring the asset to another organ of state at market related value or, when appropriate, free of charge;
  - (iii) selling the asset; or
  - (iv) destroying the asset.
  
- (2) The accounting officer must ensure that –
  - (a) immovable property is sold only at market related prices except when the public interest or the plight of the poor demands otherwise;
  - (b) movable assets are sold either by way of written price quotations, a competitive bidding process, auction or at market related prices, whichever is the most advantageous;
  - (c) firearms are not sold or donated to any person or institution within or outside the Republic unless approved by the National Conventional Arms Control Committee;
  - (d) immovable property is let at market related rates except when the public interest or the plight of the poor demands otherwise;
  - (e) all fees, charges, rates, tariffs, scales of fees or other charges relating to the letting of immovable property are annually reviewed;
  - (f) where assets are traded in for other assets, the highest possible trade-in price is negotiated; and
  - (g) in the case of the free disposal of computer equipment, the provincial department of education is first approached to indicate within 30 days whether any of the local schools are interested in the equipment.

**PART 37: ANNEXURE: FIXED ASSET LIVES**

<b>Item</b>	<b>Average useful life</b>
<b>Finance lease assets</b>	
Office equipment(term of the lease)	3-5 Years / term of the lease
<b>Infrastructure</b>	10-80 Years
<b>Community &amp; Buildings</b>	10-60 years
<b>Other property, plant and equipment</b>	
Plant and equipment	12-20 Years
Motor vehicles	12-20 years
Office equipment and IT Equipment	8-23 years
Furniture and fittings	12-18 years
Cell phone and I-Pad	2-5 years

Intangible Assets

5-10 years

PART 38: ANNEXURE: PARAPHRASE OF SECTION 14 OF THE MUNICIPAL FINANCE MANAGEMENT ACT 2003

A municipality may not alienate any capital asset required to provide a minimum level of basic municipal services.

A municipality may alienate any other capital asset, but provided

- the council, in a meeting open to the public, has first determined that the asset is not required to provide a minimum level of basic municipal services, and
- the council has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

Impairment of assets will be done to all assets which will attract impairment after impairment testing and such assets will either be impaired or written-off from the Asset Register.

PART 39: ANNEXURE A: EXAMPLES OF ASSET TYPES NOT CAPITALISED DUE TO THEM BEING UTILISED LESS THAN 12 MONTHS

- Kitchenware, eg. Kettles, toasters, two-plate stove, etc.

- Stationery equipment, eg. Punches (not heavy duty), staplers (not heavy duty), etc.
- Garden equipment, eg. Brooms, rakes, spade, etc.
- Machines (not heavy duty), eg. Spanners, screw drivers, etc.
- Electrical equipment, eg. Extension lead, multi plug, etc.
- Mattresses
- Cutlery & crockery
- Other, as may be determined by management